

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Fife Lake Area Utility Authority	County Grand Traverse
Fiscal Year End December 31, 2007	Opinion Date June 19, 2008	Date Audit Report Submitted to State August 29, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 Letter; SAS 114 Letter	
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, PC		Telephone Number 231-775-9789	
Street Address 134 West Harris Street		City Cadillac	State MI
Zip 49601			
Authorizing CPA Signature 	Printed Name Steven C. Arends, C.P.A.	License Number 1101013211	

FIFE LAKE AREA UTILITY AUTHORITY

FIFE LAKE, MICHIGAN

DECEMBER 31, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2007

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June 19, 2008

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Fife Lake Area Utility Authority
Fife Lake, Michigan

We have audited the accompanying financial statements of the business-type activities of the Fife Lake Area Utility Authority as of and for the year ended December 31, 2007, which comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fife Lake Area Utility Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Fife Lake Area Utility Authority as of December 31, 2007 and 2006, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through vi are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Fife Lake Area Utility Authority basic financial statements. The accompanying financial information listed as “Other Information” in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, it is fairly stated in all material respects in relation to the financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2007

Fife Lake Area Utility Authority, a public municipal authority located in Fife Lake, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Fife Lake Area Utility Authority's administration's discussion and analysis of the financial results for the fiscal year ended December 31, 2007, along with specific comparative information as required.

A. Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Authority's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

B. Summary of Net Assets

The following schedule summarizes the net assets at December 31,

	<u>2007</u>	<u>2006</u>
Assets		
Current Assets	\$ 30,594	\$ 29,034
Restricted Assets	<u>137,215</u>	<u>147,452</u>
Non Current Assets		
Capital Assets	3,467,843	3,457,368
Less Accumulated Depreciation	<u>2,260,880</u>	<u>2,194,316</u>
Total Non Current Assets	<u>1,206,963</u>	<u>1,263,052</u>
TOTAL ASSETS	<u><u>\$ 1,374,772</u></u>	<u><u>\$ 1,439,538</u></u>
Liabilities		
Current Liabilities	\$ 27,370	\$ 27,785
Long-term Liabilities	<u>220,000</u>	<u>240,000</u>
Total Liabilities	<u>247,370</u>	<u>267,785</u>
Net Assets		
Invested in Capital Assets Net of Related Debt	966,963	1,003,052
Restricted for Specific Purposes	137,215	147,452
Unrestricted	<u>23,224</u>	<u>21,249</u>
Total Net Assets	<u>1,127,402</u>	<u>1,171,753</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,374,772</u></u>	<u><u>\$ 1,439,538</u></u>

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2007

C. Analysis of Financial Position

During the fiscal year ended December 31, 2007, the Authority's net assets decreased by \$44,351. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended December 31, 2007, \$89,135 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended December 31, 2007, \$35,325 in expenditures were capitalized and recorded as assets of the Authority.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$56,089 for the fiscal year ended December 31, 2007.

D. Results of Operations

For the fiscal year ended December 31, the results of operations were:

	2007		2006	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
General Revenues				
Interest and Rents	\$ 2,923	1.59%	\$ 3,027	1.70%
Program Revenues				
Charges for Services	<u>180,479</u>	<u>98.41%</u>	<u>175,308</u>	<u>98.30%</u>
Total Revenues	<u>183,402</u>	<u>100.00%</u>	<u>178,335</u>	<u>100.00%</u>
Expenses				
Utility System	<u>227,753</u>	<u>100.00%</u>	<u>263,181</u>	<u>100.00%</u>
Change in Net Assets	<u>\$ (44,351)</u>		<u>\$ (84,846)</u>	

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2007

E. Analysis of Significant Revenues

Significant revenues are discussed below:

Charges for Services

The majority of the revenues are comprised of user charges received from Fife Lake Area Utility customers.

F. General Fund Budgetary Highlights

The Authority is required by its bond ordinance to prepare an annual budget. Formal budgetary control is not imposed under the State of Michigan laws on proprietary fund types.

For the year ended December 31, 2007, the Authority amended the budget once. The following schedule shows a comparison of the original budget, the final budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Total Revenue	\$ 176,000	\$ 176,000	\$ 184,324
Total Expense	\$ 176,000	\$ 176,000	\$ 228,675

G. Capital Assets and Debt Administration

1. Capital Assets

The Authority's investment in capital assets for governmental activities as of December 31, 2007, amounted to \$1,206,963 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2007

Fife Lake Area Utility Authority
Capital Assets as of December 31,

	<u>2007</u>	<u>2006</u>
Land and Land Rights	\$ 48,084	\$ 48,084
Buildings	40,500	40,500
Machinery and Equipment	132,088	118,742
Vehicles	21,979	24,850
Investment in Sewer System	<u>3,225,192</u>	<u>3,225,192</u>
	3,467,843	3,457,368
Less Accumulated Depreciation	<u>2,260,880</u>	<u>2,194,316</u>
Net Capital Assets	<u><u>\$ 1,206,963</u></u>	<u><u>\$ 1,263,052</u></u>

2. Long Term Debt

At the end of the current fiscal year, the Authority had total installment debt outstanding of \$240,000. The entire balance of this debt is backed by the full faith and credit of the government. Additional information on the Authority's long-term debt can be found in the notes to the financial statements.

H. Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report, please contact the Fife Lake Area Utility Authority, P.O. Box 219, Fife Lake, Michigan 49633.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

STATEMENT OF NET ASSETS

DECEMBER 31, 2007

ASSETS

CURRENT ASSETS

Cash	\$ 14,723
Accounts Receivable	12,871
Inventory	<u>3,000</u>
Total Current Assets	<u>30,594</u>

RESTRICTED ASSETS

Investments	<u>137,215</u>
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NON CURRENT ASSETS

Capital Assets	3,467,843
Less Accumulated Depreciation	<u>2,260,880</u>
Total Non Current Assets	<u>1,206,963</u>

TOTAL ASSETS	<u><u>\$ 1,374,772</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Payroll Withholdings Payable	\$ 1,370
Accrued Interest Payable	5,000
Customer Deposits Payable	1,000
Revenue Bonds Payable - Current Portion	<u>20,000</u>
Total Current Liabilities	27,370

LONG-TERM LIABILITIES

Revenue Bonds Payable - Net of Current Portion	<u>220,000</u>
Total Liabilities	<u>247,370</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	966,963
Restricted for Specific Purposes	137,215
Unrestricted	<u>23,224</u>
Total Net Assets	<u>1,127,402</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,374,772</u></u>
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The notes to the financial statements are an integral part of this statement.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES CHARGES FOR SERVICES	BUSINESS-TYPE ACTIVITIES
			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
<u>BUSINESS-TYPE ACTIVITIES</u>			
Utility System	\$ 227,753	\$ 180,479	\$ (47,274)
<u>GENERAL REVENUES</u>			
Interest and Rents			2,923
Change in Net Assets			(44,351)
<u>NET ASSETS</u> - Beginning of Year			1,171,753
<u>NET ASSETS</u> - End of Year			\$ 1,127,402

The notes to the financial statements are an integral part of this statement.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

COMPARATIVE BALANCE SHEET
DECEMBER 31,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash		
Receiving Fund	\$ 14,664	\$ 15,305
Operation and Maintenance Fund	59	1,597
Accounts Receivable	12,871	9,132
Inventory	3,000	3,000
Total Current Assets	30,594	29,034
<u>RESTRICTED ASSETS</u>		
Investments		
Bond and Interest Redemption Fund	13,467	12,059
Bond Reserve Account	40,202	40,540
Improvement and Repair Account	83,546	94,853
Total Restricted Assets	137,215	147,452
<u>CAPITAL ASSETS</u>		
Land and Land Rights	48,084	48,084
Buildings	40,500	40,500
Machinery and Equipment	132,088	118,742
Vehicles	21,979	24,850
Investment in Sewer System	3,225,192	3,225,192
Total	3,467,843	3,457,368
Less:		
Accumulated Depreciation	2,260,880	2,194,316
Net Capital Assets	1,206,963	1,263,052
Total Assets	\$ 1,374,772	\$ 1,439,538

The accompanying notes are an integral part of these financial statements.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

COMPARATIVE BALANCE SHEET
DECEMBER 31,

	2007	2006
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Payroll Withholdings Payable	\$ 1,370	\$ 1,368
Accrued Interest Payable	5,000	5,417
Customer Deposits Payable	1,000	1,000
Revenue Bonds Payable - Current Portion	20,000	20,000
Total Current Liabilities	27,370	27,785
<u>LONG-TERM LIABILITIES</u>		
Revenue Bonds Payable - Net of Current Portion	220,000	240,000
Total Liabilities	247,370	267,785
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	966,963	1,003,052
Restricted for Specific Purposes	137,215	147,452
Unrestricted	23,224	21,249
Total Net Assets	1,127,402	1,171,753
Total Liabilities and Net Assets	\$ 1,374,772	\$ 1,439,538

The accompanying notes are an integral part of these financial statements.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

COMPARATIVE STATEMENT OF REVENUES AND EXPENSES

YEAR ENDED DECEMBER 31,

	<u>2007</u>	<u>2006</u>
<u>OPERATING REVENUES</u>		
Sewer Charges	\$ 180,479	\$ 175,308
<u>OPERATING EXPENSES</u>		
Operation and Maintenance		
Personal Services		
Salaries and Wages	43,826	42,346
Fringe Benefits		
FICA	3,353	3,239
Workers' Compensation	1,540	1,864
SIMPLE Savings Plan	1,201	1,309
Supplies		
Gas and Oil	5,978	5,194
Operating Supplies	2,381	467
Other Services and Charges		
Telephone	1,276	1,441
Contracted Services	2,800	3,038
Engineering	0	3,920
Insurance and Bonds	10,142	8,151
Trash Removal	479	455
Utilities		
Heat	1,973	2,506
Electric	15,853	15,746
Equipment Repairs	16,848	44,861
Building Repairs	0	2,047
Automotive Repairs	1,151	484
Computer Software	515	525
Depreciation	89,135	86,849
Miscellaneous	17	32
Administration and General		
Personal Services		
Salaries and Wages	0	2,720
FICA	0	208

The accompanying notes are an integral part of these financial statements.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

COMPARATIVE STATEMENT OF REVENUES AND EXPENSES

YEAR ENDED DECEMBER 31,

	<u>2007</u>	<u>2006</u>
Supplies		
Office Supplies	394	3,047
Postage	1,391	1,397
Other Services and Charges		
Licenses and Permits	1,655	2,932
Professional Fees	13,754	14,368
Bank Charges	430	452
Total Operating Expenses	<u>216,092</u>	<u>249,598</u>
Operating Income (Loss)	<u>(35,613)</u>	<u>(74,290)</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest Income	2,923	3,027
Interest Expense	(12,583)	(13,583)
Gain on the Sale of Assets	922	0
Total Nonoperating Revenues (Expenses)	<u>(8,738)</u>	<u>(10,556)</u>
Change in Net Assets	(44,351)	(84,846)
<u>NET ASSETS</u> - Beginning of Year	<u>1,171,753</u>	<u>1,256,599</u>
<u>NET ASSETS</u> - End of Year	<u><u>\$ 1,127,402</u></u>	<u><u>\$ 1,171,753</u></u>

The accompanying notes are an integral part of these financial statements.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31,

	<u>2007</u>	<u>2006</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 176,740	\$ 176,213
Cash Payments to Suppliers for Goods and Services	(83,129)	(117,942)
Cash Payments to Employees for Services	(43,826)	(45,066)
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	49,785	13,205
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:		
Principal Payments	(20,000)	(20,000)
Interest Expense Paid	(13,000)	(14,000)
Acquisition of Capital Assets	(35,325)	(16,114)
Sale of Capital Assets	3,201	0
	<hr/>	<hr/>
Net Cash Provided by (Used for) Capital and Related Financing Activities	(65,124)	(50,114)
	<hr/>	<hr/>
Cash Flows from Investing Activities		
Interest Received	2,923	3,027
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	(12,416)	(33,882)
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	164,354	198,236
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 151,938	\$ 164,354
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31,

	<u>2007</u>	<u>2006</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Operating Income (Loss)	\$ (35,613)	\$ (74,290)
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities		
Depreciation	89,135	86,849
(Increase) Decrease in Current Assets		
Accounts Receivable	(3,739)	906
Increase (Decrease) in Current Liabilities		
Payroll Withholdings Payable	2	(260)
Total Adjustments	<u>85,398</u>	<u>87,495</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>\$ 49,785</u>	<u>\$ 13,205</u>

The accompanying notes are an integral part of these financial statements.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Fife Lake Area Utility Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Reporting Entity

The Fife Lake Area Utility Authority is a public municipal authority incorporated pursuant to Act 233 of the Public Acts of Michigan of 1955, as amended. The Authority was incorporated in 1979 by Fife Lake Township, located in Grand Traverse County, the Village of Fife Lake, located in Grand Traverse County and Springfield Township, located in Kalkaska County. The Authority was formed for the purpose of acquiring, owning, improving, enlarging, extending, and operating a sewage disposal system service within the member municipalities.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governments.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

The government-wide focus is more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements issued through November 30, 1989 in accounting and reporting for its proprietary operations. Proprietary funds include the following fund type:

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Investment Policy adopted by the Authority allows the Treasurer to invest funds in the following:

Certificates of deposit (six months to one year), savings accounts, deposit accounts, or money market accounts of a financial institution insured by an agency of the United States government and that maintains a principal office or branch office located in the state under the laws of this state or the United States.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

2. Receivables and Payables

All trade receivables are shown without an allowance for uncollectibles because delinquent amounts attach as a lien against the benefited property which assures their eventual collection.

3. Capital Assets

Capital assets of the Authority are recorded at cost. Capital assets donated to the Authority are recorded at their estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Buildings	40	Years
Machinery and Equipment	5-20	Years
Vehicles	10	Years
Investment in Sewer System	40	Years

The Authority's capitalization policy is to capitalize individual amounts exceeding \$1,000.

4. Long-Term Obligations

The Authority reports long-term debt as a liability in its Proprietary Fund.

5. Inventory

Inventory consists of repair parts and supplies held for consumption. All inventory is reported at the lower of cost or market using the First In/First Out method.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Authority is required by its bond ordinance to prepare an annual budget. Formal budgetary control is not imposed under State of Michigan laws on proprietary fund types.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Authority's deposits are all on deposit with Forest Area Federal Credit Union in Fife Lake, Michigan.

Investment rate risk. The Authority will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Authority's cash requirements.

Foreign currency risk. The Authority is not authorized to invest in investments, which have this type of risk.

Credit risk. The Authority will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Authority's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Authority will do business in accordance with the Authority's investment policy.

Concentration of credit risk. The Authority will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of December 31, 2007, \$52,223 of the Authority's bank balance of \$152,223 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes investments that are insured or registered, or securities held by the Authority or the Authority's agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Authority's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Authority's name. At December 31, 2007, the Authority held no investments.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

B. Capital Assets

A summary of changes in the Authority's capital assets follows:

	Balance December 31, 2006	Additions	Deletions	Balance December 31, 2007
Capital Assets, not being depreciated				
Land and Land Rights	\$ 48,084	\$ 0	\$ 0	\$ 48,084
Capital Assets, being depreciated				
Buildings	40,500	0	0	40,500
Machinery and Equipment	118,742	13,346	0	132,088
Vehicles	24,850	21,979	(24,850)	21,979
Investment in Sewer System	3,225,192	0	0	3,225,192
 Total Capital Assets, being depreciated	 3,409,284	 35,325	 (24,850)	 3,419,759
 Less Accumulated Depreciation for:				
Buildings	25,556	1,012	0	26,568
Machinery and Equipment	91,788	3,774	0	95,562
Vehicles	22,769	3,719	22,571	3,917
Investment in Sewer System	2,054,203	80,630	0	2,134,833
 Total Accumulated Depreciation	 2,194,316	 89,135	 22,571	 2,260,880
 Total Capital Assets, being depreciated Net of Depreciation	 1,214,968	 (53,810)	 (2,279)	 1,158,879
 Net Capital Assets	 \$ 1,263,052	 \$ (53,810)	 \$ (2,279)	 \$ 1,206,963

Depreciation expense for the year ended December 31, 2007, amounted to \$89,135.

C. Long-Term Debt

The following is a summary of the long-term debt transactions of the Authority for the year ended December 31, 2007:

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

	<u>REVENUE BONDS</u>
Long-Term Debt Payable at January 1, 2007	\$ 260,000
Long-Term Debt Incurred	0
Long-Term Debt Retired	<u>(20,000)</u>
Long-Term Debt Payable at December 31, 2007	<u>\$ 240,000</u>
Due within one year	<u>\$ 20,000</u>

Long-Term Debt at December 31, 2007, is as follows:

Revenue Bonds

\$585,000 Sewage Disposal System No. 1 Bonds due in Annual
Installments of \$20,000 through August 1, 2019, Interest at 5% \$ 240,000

The annual requirements to amortize the debt outstanding as of December 31, 2007 are as follows:

<u>YEAR ENDING DECEMBER 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 20,000	\$ 12,000	\$ 32,000
2009	20,000	11,000	31,000
2010	20,000	10,000	30,000
2011	20,000	9,000	29,000
2012	20,000	8,000	28,000
2013-2017	100,000	25,000	125,000
2018-2019	40,000	3,000	43,000
	<u>\$ 240,000</u>	<u>\$ 78,000</u>	<u>\$ 318,000</u>

IV. OTHER INFORMATION

A. Interest Income and Expense

For the year ended December 31, 2007, interest income on deposits and investments was \$2,923 and interest expense on revenue bonds was \$12,583.

B. Restricted Assets

The \$137,215 restricted assets reported on the balance sheet represents monies required under the bond ordinance for the following:

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

ITEM	ACTUAL	AMOUNT REQUIRED
Bond and Interest Redemption Fund	\$ 13,467	\$ 13,334
Bond Reserve Account	40,202	40,000
Improvement and Repair Account	83,546	0
	<u>\$ 137,215</u>	<u>\$ 53,334</u>

C. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority participates in a pool of municipalities with the State of Michigan for self-insuring property and casualty, crime, general liability and errors and omissions insurance. The Authority pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Authority has not been informed of any special assessments being required for the current year or the three prior years.

Also, the Authority carries workers compensation insurance with the Accident Fund of Michigan. Settled claims for this coverage have not exceeded premium costs in any year to date.

D. Retirement Plan

Effective July 1, 1998, the Authority established a SIMPLE I.R.A. Plan. The Plan was established with Citizens Bank, Manton, Michigan. The Plan covers all employees who meet eligibility requirements based on annual compensation.

Each employee who is eligible to enroll in the Plan may set aside a percentage of his or her pay into the Plan (elective deferrals). The Authority is to make matching contributions equal to employee elective deferrals up to a maximum of 3% of compensation.

The individual retirement account balances become the property of the employee immediately. Therefore, there are no plan assets or liabilities which are includible as part of the Authority's reporting entity.

For the year ended December 31, 2007, covered wages for those participating in the Plan were \$41,785 and total wages for all employees including non-covered payroll were \$43,826. For 2007, contributions to the Plan by employees amounted to \$2,041 and the Authority also contributed \$1,209.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

SEWAGE DISPOSAL SYSTEM NO.1
STATEMENT OF BONDS PAYABLE

DECEMBER 31, 2007

<u>NAME OF ISSUE</u>	Fife Lake Area Utility Authority Sewage Disposal System No. 1 Bonds		
<u>DATE OF ISSUE</u>	February 1, 1980		
<u>PURPOSE</u>	To finance a portion of the cost acquiring and constructing a sewage disposal system to service the township of Fife Lake, The Village of Fife Lake and the Township of Springfield.		
<u>INTEREST PAYABLE</u>	February 1, and August 1, of each year		
<u>INTEREST RATE</u>	5%		
<u>AMOUNT OF ISSUE</u>	\$ 585,000		
<u>AMOUNT REDEEMED</u>			
Prior Years	\$ 325,000		
Current Year	20,000	345,000	
			<u>240,000</u>
<u>BALANCE OUTSTANDING</u> - December 31, 2007	<u>\$ 240,000</u>		

<u>DUE DATES</u>	<u>REQUIREMENTS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
February 1, 2008		\$ 6,000	\$ 6,000
August 1, 2008	\$ 20,000	6,000	26,000
February 1, 2009		5,500	5,500
August 1, 2009	20,000	5,500	25,500
February 1, 2010		5,000	5,000
August 1, 2010	20,000	5,000	25,000

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

SEWAGE DISPOSAL SYSTEM NO.1
STATEMENT OF BONDS PAYABLE

DECEMBER 31, 2007

<u>DUE DATES</u>	<u>REQUIREMENTS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
February 1, 2011		4,500	4,500
August 1, 2011	20,000	4,500	24,500
February 1, 2012		4,000	4,000
August 1, 2012	20,000	4,000	24,000
February 1, 2013		3,500	3,500
August 1, 2013	20,000	3,500	23,500
February 1, 2014		3,000	3,000
August 1, 2014	20,000	3,000	23,000
February 1, 2015		2,500	2,500
August 1, 2015	20,000	2,500	22,500
February 1, 2016		2,000	2,000
August 1, 2016	20,000	2,000	22,000
February 1, 2017		1,500	1,500
August 1, 2017	20,000	1,500	21,500
February 1, 2018		1,000	1,000
August 1, 2018	20,000	1,000	21,000
February 1, 2019		500	500
August 1, 2019	20,000	500	20,500
	<u>\$ 240,000</u>	<u>\$ 78,000</u>	<u>\$ 318,000</u>

EARLY REDEMPTION

Bonds maturing in the years 1981 to 1993, inclusive, shall not be subject to redemption prior to maturity.

Bonds maturing in the years 1994 to 2019, inclusive, will be subject to redemption prior to maturity, in inverse numerical order, at the option of the Authority on any one or more interest payment dates on or after August 1, 1993, at the par value thereof and accrued interest to the date fixed for redemption.

FIFE LAKE AREA UTILITY AUTHORITY
FIFE LAKE, MICHIGAN

SEWAGE DISPOSAL SYSTEM NO.1
STATEMENT OF BONDS PAYABLE

DECEMBER 31, 2007

Notice of redemption shall be given to the holders of the Bonds to be redeemed by publication of such notice not less than thirty (30) days prior to the date fixed for redemption, at least once in a newspaper or publication circulated in Michigan, which carries as a part of its regular service, notices of the sale of municipal bonds. In the case of registered bonds, (unless registered to "Bearer") thirty (30) days' notice shall be given by mail to the registered holder at the registered address and no publication shall be necessary. Bonds so called for redemption shall not bear interest after the date fixed for redemption, provided funds are on hand with the paying agent to redeem the same.

The principal of said Bonds and the interest thereon shall be payable in lawful money of the United States of America; at a bank or trust company to be designated by the purchaser of the bonds, upon presentation and surrender of said Bonds, or if registered, to the registered holder at the address shown on the registration books of the Authority.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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June 19, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Commissioners
Fife Lake Area Utility Authority
Fife Lake, Michigan

We have audited the basic financial statements of the Fife Lake Area Utility Authority, Fife Lake, Michigan for the year ended December 31, 2007, and have issued our report thereon dated June 19, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 19, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Fife Lake Area Utility Authority are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 19, 2008.

Other Audit Findings or Issues

During the course of our audit of the basic financial statements of Fife Lake Area Utility Authority for the year ended December 31, 2007, we noted the following list of items which we feel deserve comment:

Budgeting

We noted that expenditures exceeded appropriations. The Board is responsible for amending the budget during the year to allow for expenditures in excess of original appropriations.

Accounting Records

Once again the accounting records were found to be in excellent condition and in accordance with the State of Michigan Uniform Chart of Accounts.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

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June 19, 2008

COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

To the Board of Commissioners
Fife Lake Area Utility Authority
Fife Lake, Michigan

In planning and performing our audit of the basic financial statements of the Fife Lake Area Utility Authority, Fife Lake, Michigan as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Fife Lake Area Utility Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Authority makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies described above are material weaknesses.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.